

How Will the Economic Downturn Affect New York City's Nonprofit Sector?

Presentation by

David Dyssegaard Kallick

Senior Fellow

FISCAL POLICY INSTITUTE

11 Park Place, Suite 701

New York, NY 10007

212-721-7164

ddkallick@fiscalpolicy.org



**Citi Foundation
2008 Nonprofit Day**

May 14, 2008

Brooklyn, NY

www.fiscalpolicy.org

Fiscal Policy Institute

Nonpartisan research and education organization that focuses on tax, budget, economic and related public policy issues that affect the quality of life and the economic well-being of New York State residents. Founded in 1991, FPI's work furthers the development and implementation of public policies that create a strong, sustainable economy in which prosperity is broadly shared by all New Yorkers. FPI has offices in Albany and New York City.

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Economic impact of immigrants in NYS/NYC

State of Working New York



Overview of Presentation

- **Context: previous expansion and current downturn**
- **Understanding the borough/county economies**
- **High housing costs and foreclosure problems**
- **Regional economic outlook**
- **How the economy affects demand for services**
- **Financial pressures on gov't budgets and donors**
- **How will nonprofit services providers respond to challenges posed by the economic downturn?**

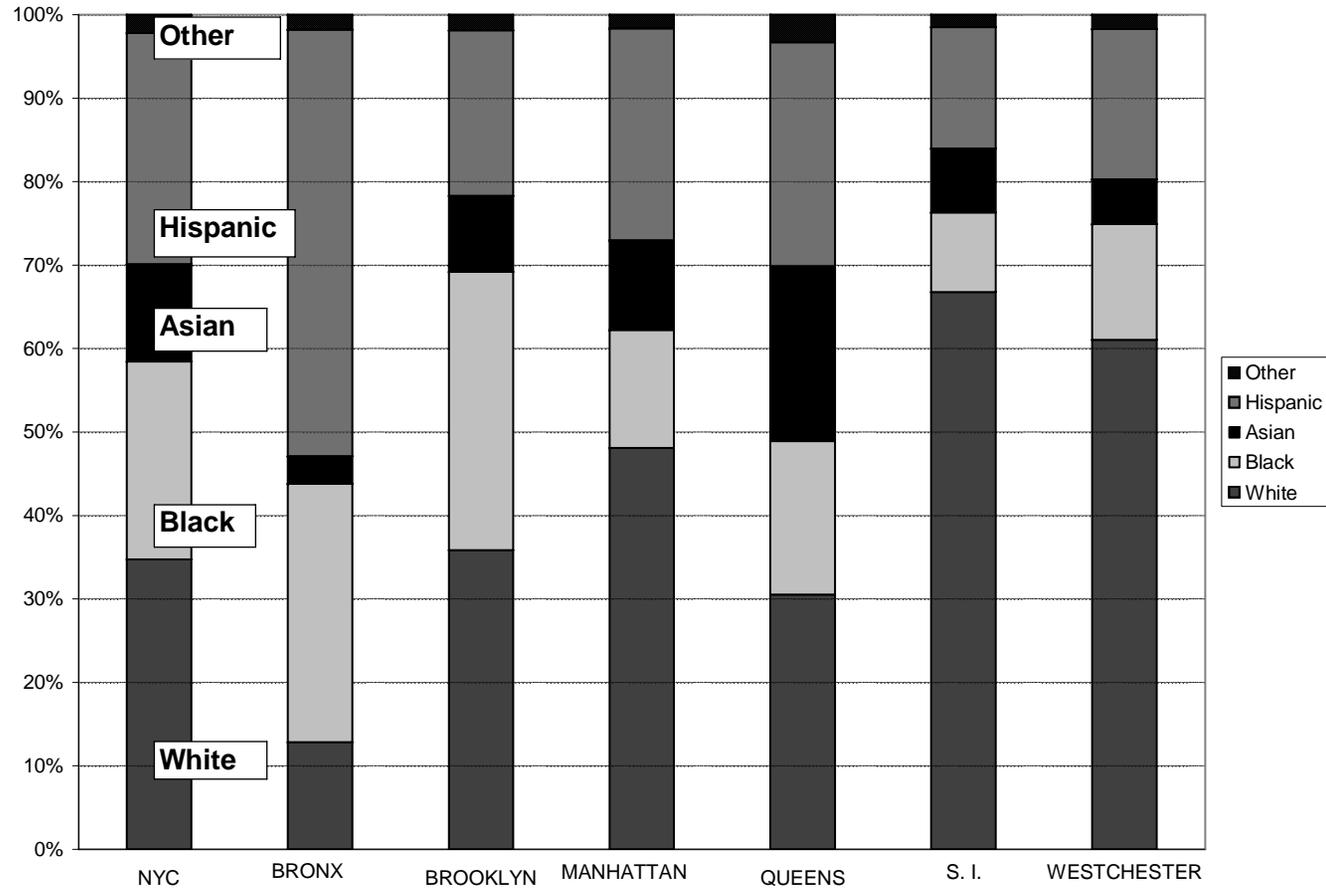
Shallow recovery and expansion **did not provide broad-based benefits**

- While NYC showed remarkable resilience after 9/11, recovery and expansion from mid-2003 through 2007 was heavily reliant on debt and unsustainable housing bubble.
- Wages and incomes for most families were stagnant or didn't rise much.
- To understand NY's job growth, think of an hour glass: wide at the top and bottom, but narrow in the middle.

**The local recession started on Wall Street,
but job losses and foreclosures hit
Brooklyn neighborhoods hard**

- Wall Street turmoil, slowing job growth, rising unemployment.
- Job losses could total 100,000 or more and may take 2-3 years, or longer, to recover.
- What's different this time? Huge housing market problems, foreclosure crisis will hit certain neighborhoods very hard. Renters in foreclosed buildings in jeopardy.
- Fuel and food prices also rising sharply.

Brooklyn has a very diverse population



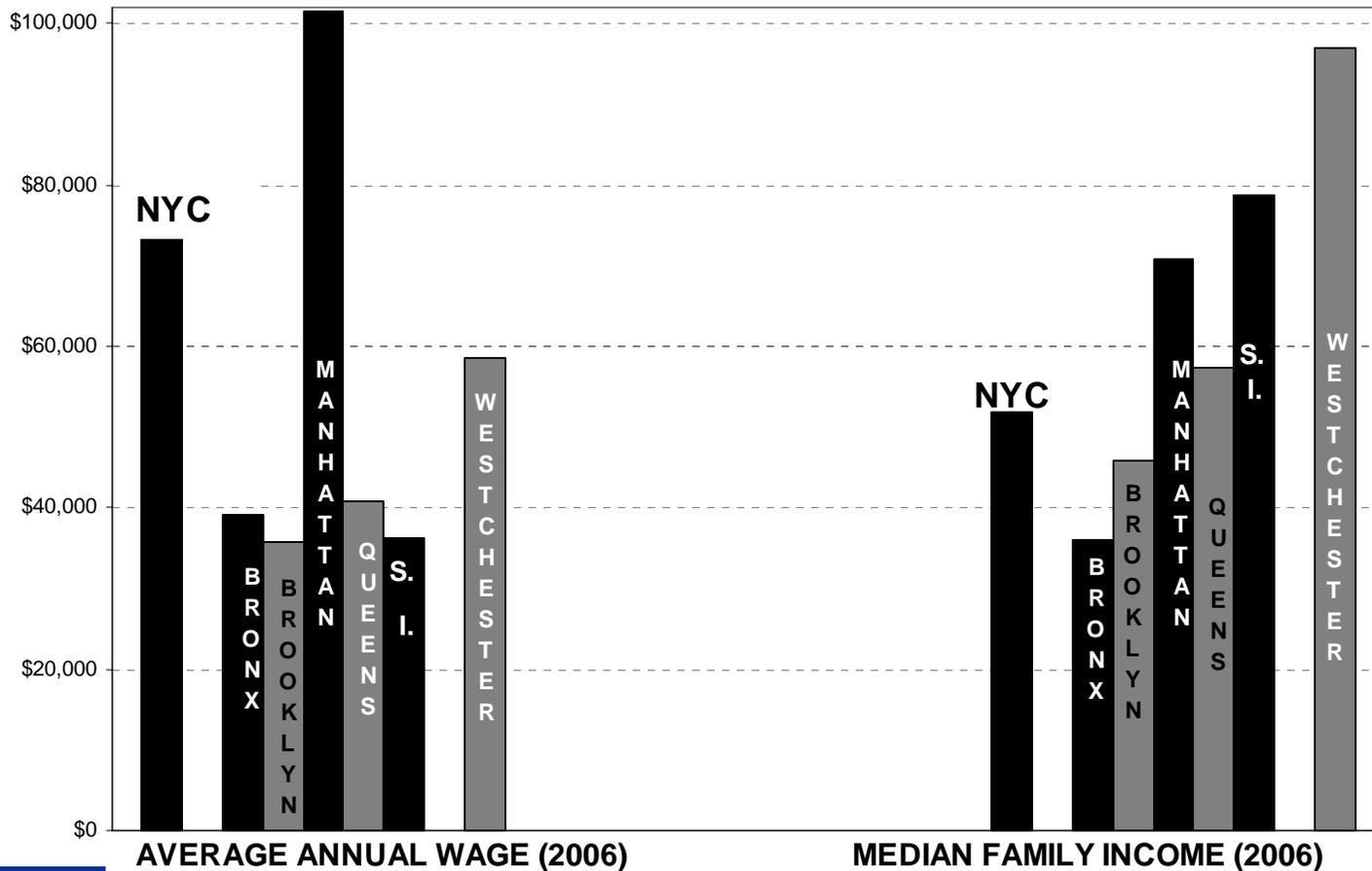
Immigrants are important to Brooklyn's economy

38% of residents are foreign-born

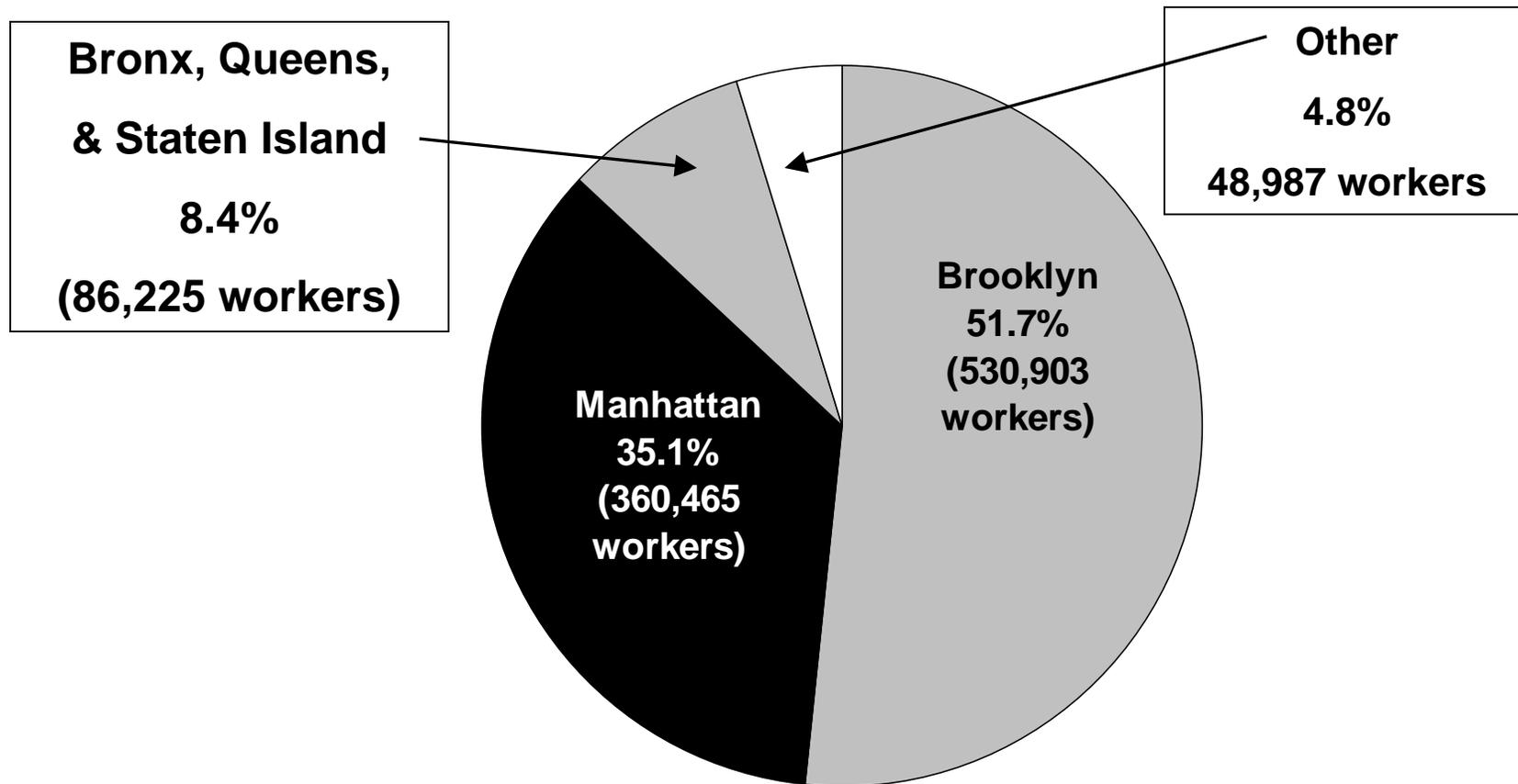
Immigrant neighborhoods outpace the rest of New York City in business growth

	Number of businesses 1994	Number of businesses 2004	Increase 1994-2004	Percent increase 1994-2004
New York City	192,405	210,783	18,378	9.6%
Flushing	2,364	3,654	1,290	54.6%
Sunset Park	1,090	1,606	516	47.3%
Sheepshead Bay- Brighton Beach	1,421	1,900	479	33.7%
Elmhurst	1,040	1,301	261	25.1%
Washington Heights	1,807	2,129	322	17.8%
Jackson Heights	1,284	1,468	184	14.3%
Flatbush	888	984	96	10.8%

Wide variation in county wages and family incomes points to differences in jobs and presence of low-wage neighborhoods.



Where do Brooklyn residents work?

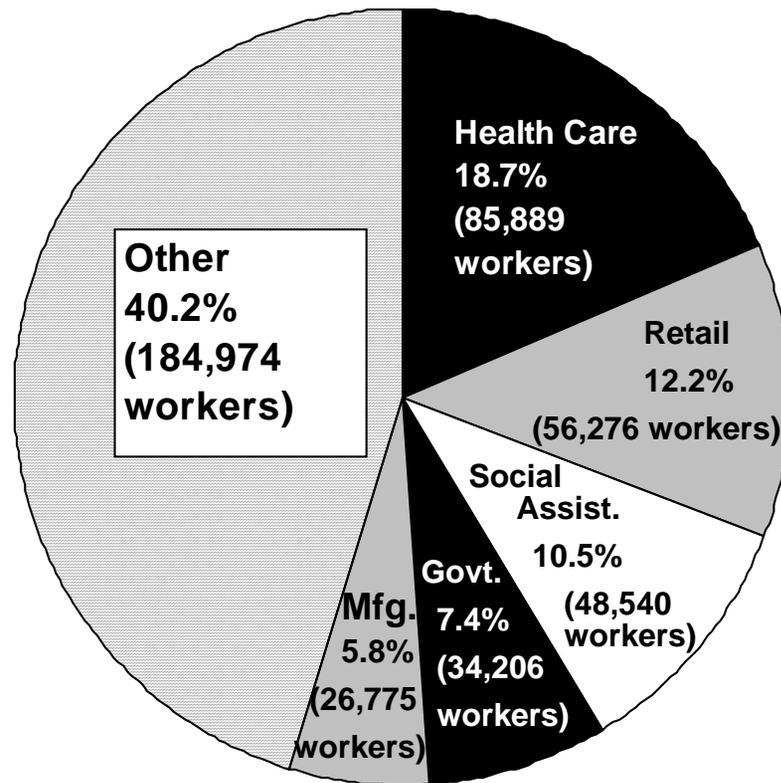


62% of Brooklyn workers earn under \$40,000 per year, only 1 in 5 earns over \$50,000

MAJOR SECTOR	COUNT	SHARE	AVERAGE WAGE	MEDIAN WAGE
Health Care & Social Assistance	174,829	18.2%	\$38,021	\$30,000
Retail Trade	79,012	8.2%	\$32,615	\$25,000
Educational Services	74,783	7.8%	\$46,392	\$41,000
Professional & Technical Services	70,515	7.4%	\$64,348	\$50,000
Transportation & Warehousing	65,896	6.9%	\$36,439	\$32,000
Construction	65,385	6.8%	\$33,795	\$26,800
Finance & Insurance	60,985	6.4%	\$70,928	\$49,500
Accommodation & Food Services	60,385	6.3%	\$25,919	\$20,000
Manufacturing	52,612	5.5%	\$36,149	\$21,600
Information	49,883	5.2%	\$55,008	\$44,400
Government	47,840	5.0%	\$52,302	\$48,000
Other Services	47,418	4.9%	\$33,211	\$25,000
Real Estate and Rental & Leasing	29,252	3.0%	\$42,501	\$36,000
Administrative & Waste Services	27,876	2.9%	\$28,438	\$21,000
Wholesale Trade	24,350	2.5%	\$44,981	\$34,000
Arts, Entertainment, & Recreation	20,958	2.2%	\$37,352	\$30,000
Other	7,252	0.8%	\$59,583	\$52,000
TOTAL	959,231	100%	\$42,535	

Nearly **1 in 5** jobs in Brooklyn is in the health sector, and **1 in 8** is in retail

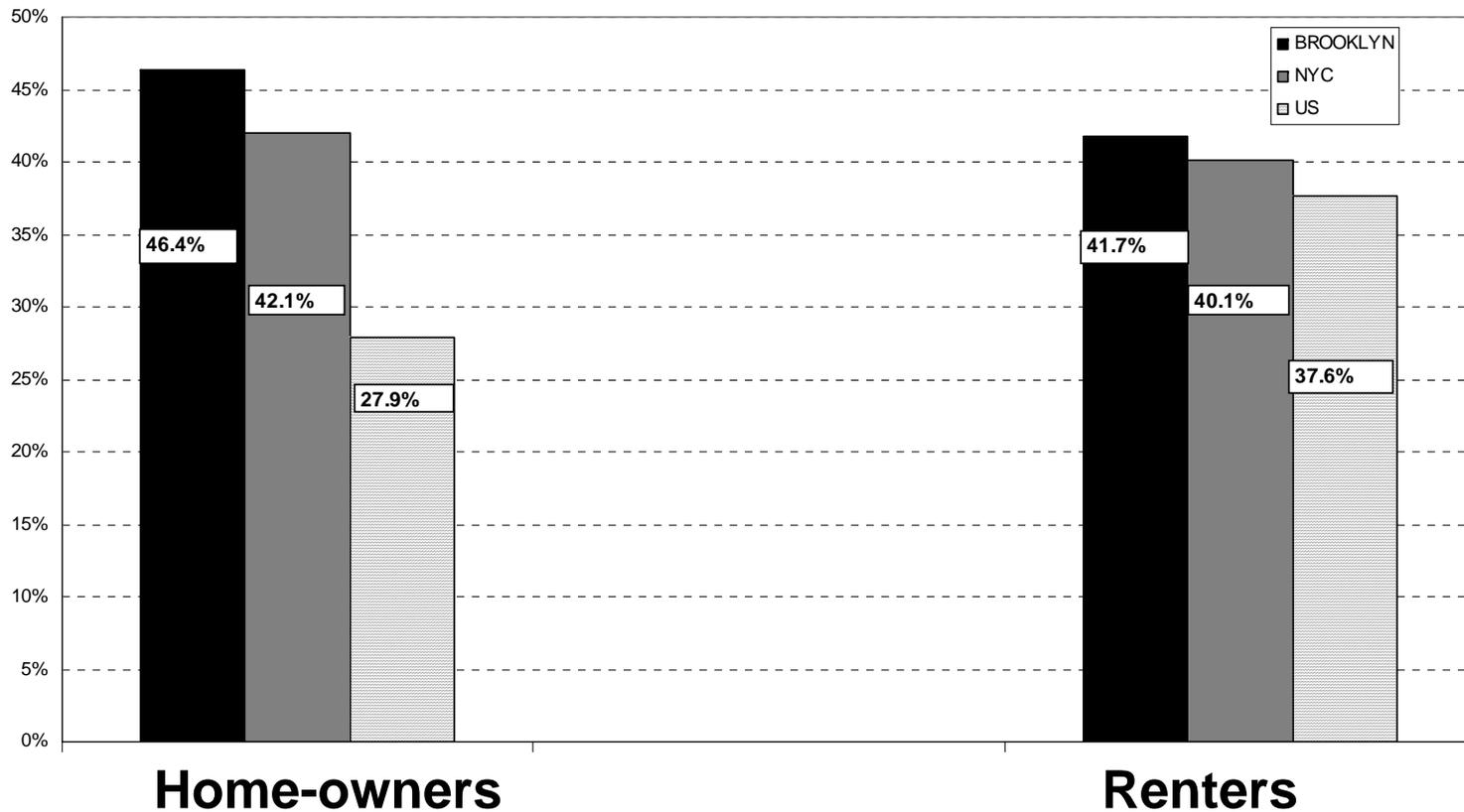
(Total Brooklyn payroll employment: 460,605 in 2006)



Unemployment in Brooklyn is higher than all other boroughs but the Bronx

Unemployment rates and number of unemployed persons, 1 st quarter 2008		
	unemployment rate	unemployed persons
Bronx	6.9%	35,133
Brooklyn	5.4%	58,500
Manhattan	4.4%	40,533
Queens	4.5%	50,233
Staten Island	4.5%	10,867
U. S.	4.9%	7,590,667

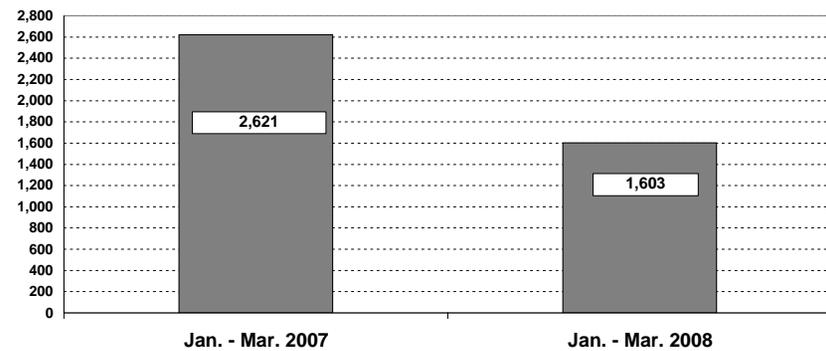
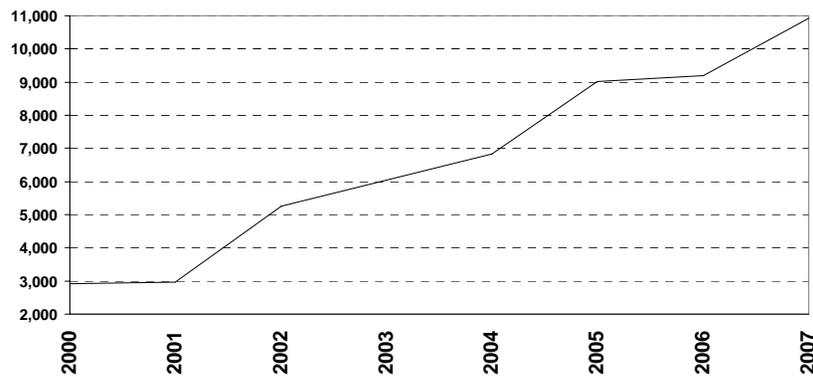
Nearly half of Brooklyn homeowners and more than two fifths of renters spend **35% or more** of income on **housing**



Subprime mortgage **foreclosures** highest in Williamsburg-Bushwick-Greenpoint, East New York, and Bedford Styvesant-Crown Heights.

Neighborhood	Number of Subprime Owner-Occupied Loans	Percentage in Foreclosure	Percentage 30+ Days Overdue	Percentage Adjustable Rate Mortgages Resetting April 2008 - Sept. 2009
Downtown - Heights - Slope	398	10.6%	12.6%	18.3%
Bedford Styvesant - Crown Heights	2379	18.1%	20.2%	28.2%
Williamsburg - Bushwick - Greenpoint	1405	20.4%	17.1%	25.8%
Bensonhurst - Bay Ridge - Sunset Park	612	7.2%	13.4%	19.4%
Coney Island - Sheepshead Bay	605	12.4%	14.4%	23.6%
Canarsie - Flatlands	3088	11.7%	18.8%	25.7%
Borough Park	450	8.4%	14.4%	16.4%
East Flatbush - Flatbush	2260	12.0%	18.9%	26.5%
East New York	2350	18.5%	18.6%	30.7%
Brooklyn Total	13,547	14.6%	18.1%	26.2%

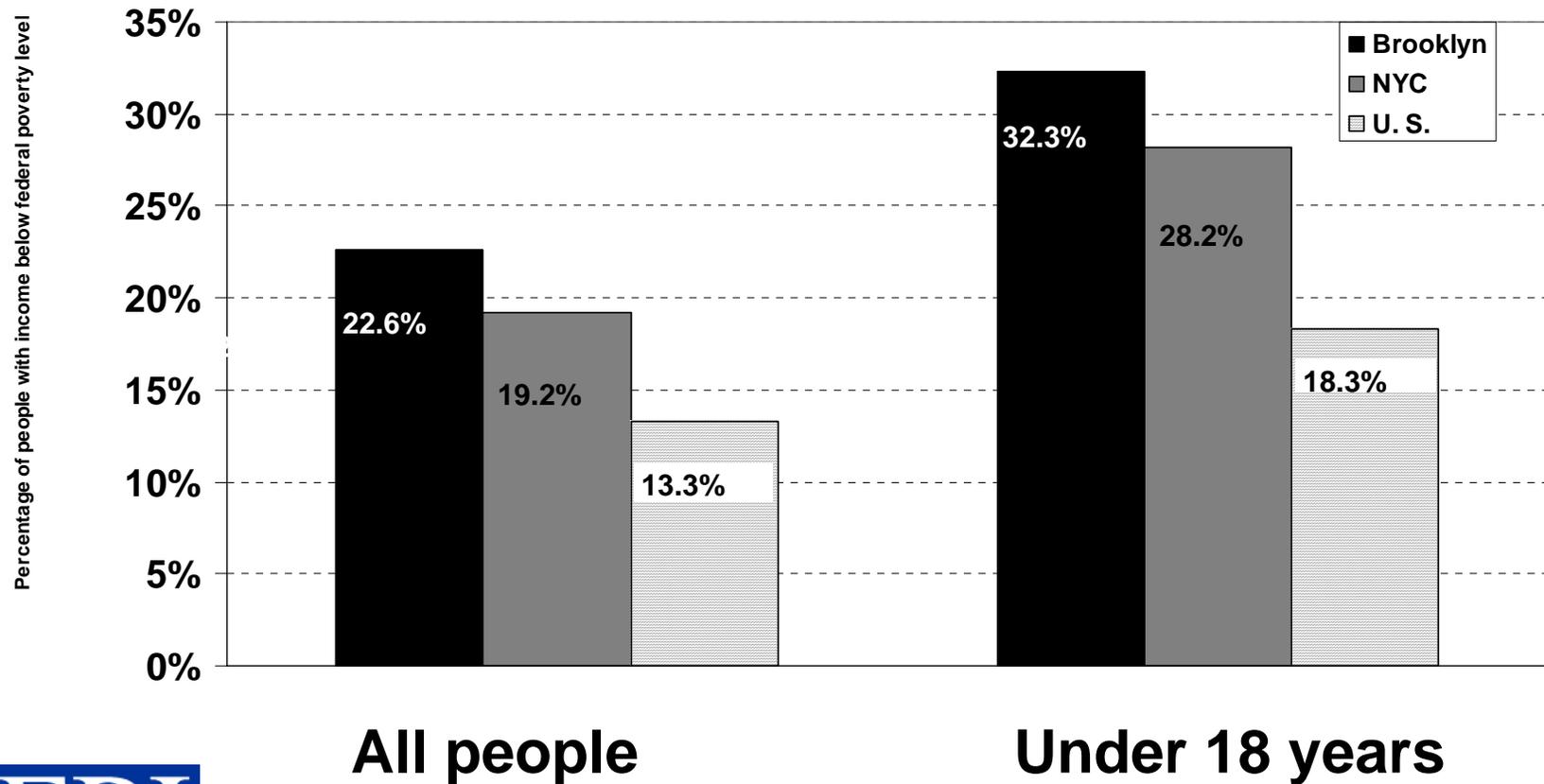
After a series of boom years, Brooklyn **residential building** permits **fell by 39%** in the first quarter of 2008



Regional economic outlook

- Expect further job declines in construction, finance, professional services, and eventually retail, restaurants and local services. Declines will last most of 2008.
- Health, education and social service employment expected to remain steady or grow slightly.
- Job quality (benefits) and inflation-adjusted pay will suffer.
- Continued cost of living pressures from high housing costs.
- Dislocations from foreclosures for owners and renters.
- Uncertain outlook for timing and strength of recovery.

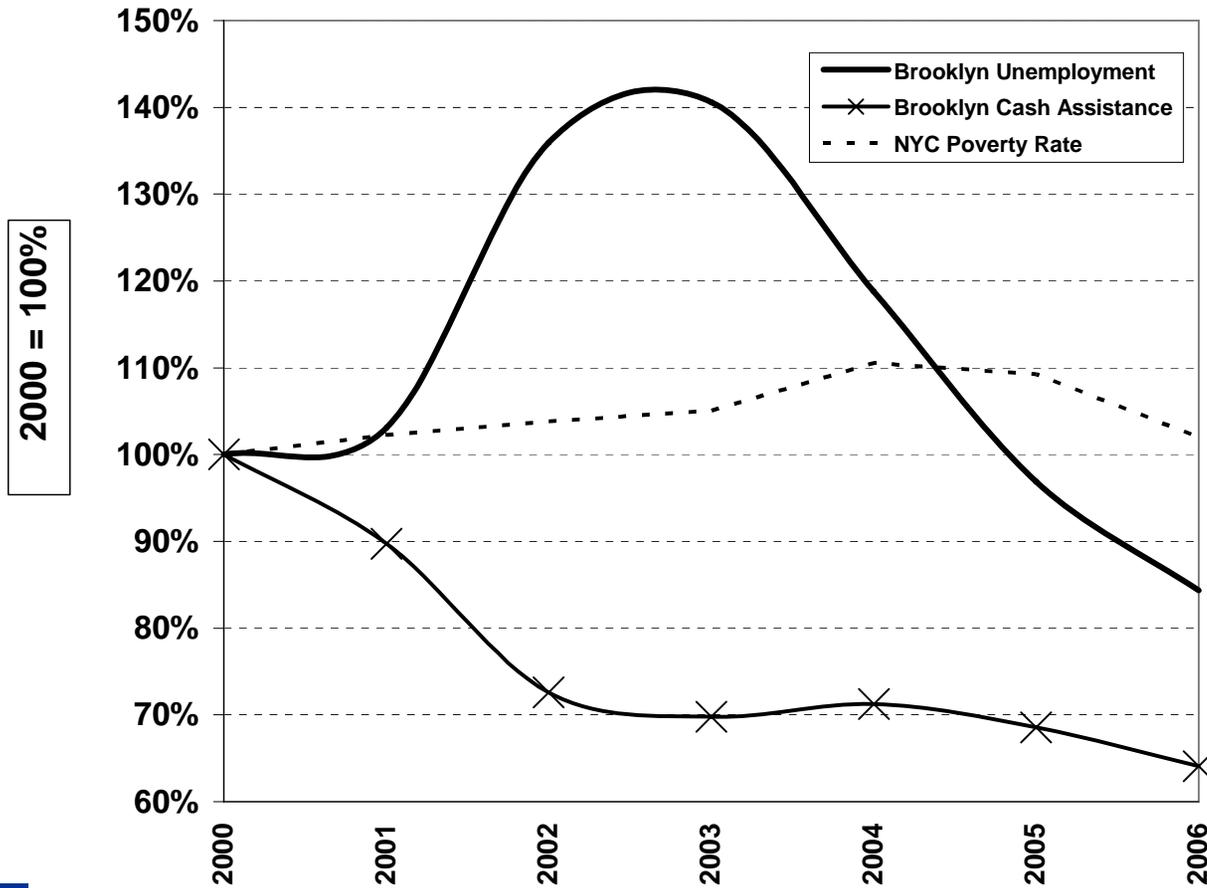
Brooklyn **poverty rates** are higher than NYC overall, and well above U.S.



Increased demand for social services

- Unemployment will rise; while unemployment insurance is a critical part of the safety net, many low-income workers won't qualify; long-term unemployment already high, no extended benefits.
- Lowest income workers in retail and neighborhood services will suffer the most from weak job market.
- Many workers will endure stagnant or declining real wages.
- The weak economy and rising food prices will escalate hunger.
- Electricity and water rates will squeeze already-strained family budgets.
- Triple housing whammy: shrinking number of affordable units; still high prices and rents; foreclosures threaten to destabilize neighborhoods and increase renter displacement.

During the last recession, **public assistance** rolls declined as **unemployment** and the poverty rate rose



Strained city and state budgets

- Wall Street downturn will strain NYC and NYS budgets and restrain spending; state budget will get hit harder because of greater reliance on income taxes.
- Governor Paterson intent on reducing expenditures.
- State failed to increase basic welfare grant, still frozen at 1990 level.
- Medicaid spending rose sharply during last two recessions and helped cushion the downturn. Not clear if that will happen this time.
- State will continue exploring how to provide universal health coverage but a solution is a few years off.
- Will health and social services employment continue growing as it has done in last two recessions.?
- Demands on social service providers will increase at a time when government budgets not likely to provide for increases, and might decrease.

Outlook for private funding sources

- While private funding is essential, the magnitude of government spending is such that it is highly unlikely that private spending will fill the gap.
- Growth in philanthropy largely has gone to universities, education and hospitals; not to aid the poor in the U.S.
- Weaker Wall Street performance will reduce foundation income (ytd S&P down slightly vs. +12.8% prior 5 years).
- Many, but not necessarily all, wealthy private donors also will see weaker market returns.
- High concentration of income gains at the top means there is more overall private wealth than 5 years ago.

Areas of uncertainty cloud the economic outlook

- How will the regulation of financial markets change and what will the implications be for NYC and NYS?
- What will change at the federal level in January 2009? Will this be an historic juncture in terms of national economic policy?
- What will happen to city and state budgets if revenues decline further?
- What are the longer-term implications of growing income polarization for NYC and NYS, and how will civic, religious and elected leaders respond? (NYS is the most polarized among the 50 states and, nationally, income gaps are the greatest since the 1920s.)

How will nonprofit social service providers respond to the immense challenges posed by the economic downturn?

- Carefully manage costs; pool purchasing; share services and functions; further professionalize management. But don't slash personnel costs at the expense of maintaining a skilled, dedicated and productive workforce.
- Diversify funding, particularly beyond government contract funds.
- Develop and articulate a vision about community and how "we're all in this together"; and what this means for the respective roles of government and the nonprofit sector.
- Think about the critical role that government policy can play in addressing systemic challenges that drive the need for many types of social services. For example, distorted economic growth sows the seeds for dislocations that can generate greater service needs.

David Dyssegaard Kallick
Fiscal Policy Institute
ddkallick@fiscalpolicy.org

